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Balancing Startup Marketing &Sales: Why it's a Tough Management Call

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THE NINTH BIENNIAL
J. WARREN McCLURE LECTURE

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THE J. WARREN McCLURE RESEARCH PROFESSORSHIP OF MARKETING

The J. Warren McClure Research Professorship of Marketing was established in 1979 through a generous gift from Mr. McClure (1919 - 2004), then president of McClure Media Marketing Motivation Company. The professorship provides release time and financial support for a Rochester Institute of Technology (RIT) professor in the Saunders College of Business to conduct research projects on marketing and other business topics.

Mr. McClure began his career in the advertising department of Armour & Company in Chicago. He later completed four years of naval service, and then became editor of *Radio Market* and, subsequently, business manager of the Grand Forks (ND) *Herald.* After he and his associates purchased the Burlington (VT) *Free Press* in 1961 and the Chambersburg (PA) *Public Opinion* in 1964, he served as publisher of both papers. The papers were merged with Gannett Newspapers in 1971 through a pooling of interest, and Mr. McClure was named the first Gannett vice president of marketing. He retired in 1975 and formed McClure Media Motivation Company. Mr. McClure served on the Gannett board for 14 years. He was an RIT emeritus trustee and an emeritus director of US Airways.

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Dr. Eugene H. Fram has been the McClure Professor since 1989. He has more than 40 years experience in management, teaching, research, and consulting and was instrumental in establishing two academic units and two curricular units at RIT. He helped develop the MBA program and the Center for Management Study, and served as Center director for 14 years. Dr. Fram also led the development of RIT's International Business Program, serving as its first director, and was the first chair of RIT's Marketing Department. In addition, he is the recipient of an outstanding teaching award at RIT, the prestigious Eisenhart Award.

Dr. Fram's consulting work involves a wide range of industries in retail, scientific instruments, basic metals, chemical processing, and media, and he often consults with many nonprofit organizations. His research and consulting experiences have led to the publication of six books and more than 100 articles. His work has appeared in numerous publications, including the *Harvard Business Review,* MIT's *Sloan Management Review,* and the *Journal of Marketing Research.* He has long been widely quoted by national and regional media on scores of marketing and business topics. In 1995, he was named "Communicator of the Year" by RIT's University News Service, and in 2004 was cited for establishing a new faculty record for news placements.

He has served on many business and nonprofit boards, and his nonprofit board model, known as the Corporate Model, has been adopted by thousands of nonprofit organizations. He continues to be a prolific author on topics related to corporate governance. In April 2007, for example, a new joint publishing venture between MIT's Sloan School and the *Wall Street Journal* featured a recently completed study Dr. Fram co-authored about *Fortune* 500 corporate directors.

Balancing Startup Marketing & Sales
Why It's a Tough Management Call

All startups have to pass critical milestones to stay on the path to success. Some are obvious: attracting investors...beginning operations...becoming profitable. However, there's one milestone that doesn't command the management attention it needs. I'm talking about balancing marketing and sales, with an emphasis on the word <u>balancing</u>.

The relationship between marketing and sales in a startup <u>should</u> be seamless. Yet, as my Internet search confirms, there is significant conflict among professionals who should be team colleagues. For example, I entered the phrase "Marketing versus Sales Conflict" in a database and located 1.9 million citations in less then one second. This outcome is a significant indication of the pervasive scope of the problem.

In the early-stage startup environment, the sales function is typically the major focus for the simple reason that salespeople generate revenues. An entrepreneur clearly needs immediate cash flow if the startup is to survive. As a result, the marketing function generally gets added later or is given secondary budget status. Due to budget issues and demands on people, the marketing function usually gets developed incrementally. Very often it begins with just one person assuming a marketing research role and/or becoming responsible for promotional programs.

Let me give you someone else's take on this process. Cary Fulbright is Vice President and General Manager of On Demand Business at Saba Software. This Microsoft competitor recently hit nearly $100 million in sales following a 40% fiscal year-over-year jump in sales. I talked to Fulbright recently, and he gave me his view of the introduction of marketing in startups, which he described in three steps.

- *First*, develop corporate awareness. This is about developing the brand, getting involved in public relations efforts, and offering give-away specialty advertising items.
- *Second,* develop qualified sales leads. This is done via e-mail contacts, Internet ads, online search-engine marketing, and traditional approaches like direct mail advertising.
- *Third*, have marketing become a fully engaged partner with sales. This involves developing sales engagement products such as targeted sales brochures, trade advertisements, and trade show support.[1]

Consequently, the initial marketing issue that confronts many entrepreneurs is deciding at what point in the firm's development to begin the marketing process. The next issue is when to enhance it, and then when to develop a complete marketing program. Clearly, allocating budgets for the marketing component of a startup is a mission-critical management decision. Too small a budget will starve the effort. Too big a budget might starve the ongoing sales effort. However, done correctly, the outcomes should lead to:

- higher sales revenues *and*
- the establishment of an innovative marketing department that works well with the sales department.

Now let me provide an overview of what's ahead in today's presentation. I am going to:

- Give a brief narrative on the major reasons behind the marketing-sales conflict.
- Then review what is known about "timing" when it comes to establishing a marketing department in a startup … and ways to help sidestep the marketing-sales disconnect.
- After that I will highlight key guidelines about hiring a startup's marketing professionals.
- Finally I'll talk a little about how the model for, and the timing of, introducing marketing in a startup is changing as a result of outside pressures.

The Roots of the Rift

The roots of the rift between marketing and sales are easy to identify, and they've been evident for at least 50 years. To start with, there's a difference in timeframes. Startup marketing involves long term tactical issues such as assessing new markets and brand development. Sales efforts tend to be completed in shorter timeframes. In startups, top management evaluates sales results weekly, monthly and sometimes even daily to monitor cash flow. One business-to-business startup firm in which I invested had a large Chinese gong in its sales department. Every time a new sale was confirmed, the sales manager hit the gong, and the sound reverberated throughout the building.

In recent years there's been a push by internal management, with startup and mature businesses, to justify marketing expenditures. As a result, gathering data for evaluating marketing's return on investment is more important than it ever used to be. Despite the push, developing outcome measures for marketing is still a work in progress. It is work that's hampered because of:

- the long lag time between marketing efforts and results[2], *and*
- the difficulty inherent in relating causes to effects.

In this country, there is frequent turnover among chief marketing officers in business firms. According to the executive placement firm Spencer Stuart, the average is about 26 months.[3] To achieve balance between marketing and sales, senior management has to be able to look at marketing as <u>the</u> function best suited to create programs that will improve profitability, grow market share and identify new markets.

Culture Contributes to the Rift

Another reason there is conflict between sales and marketing is due to culture differences. They are pervasive in the business world. You sometimes see how poisonous they can be to a startup when one or two marketing specialists first join a management team. The rift is often reinforced because of the background of the startup founders. As one experienced observer recently put it, founders often have business backgrounds as, in his words, "big deal sales people, elephant hunters." These persons are experienced sales executives who have sold large accounts such as Fortune 500 firms. Consequently, they can be partial to sales when making budget decisions.

Other factors also contribute to cultural differences. In some startups, the head of the sales department may have outsourced marketing activities since the early days of the business, and views newly hired marketing personnel as interlopers. In addition, the Internet age has certainly made it easier for entrepreneurs to experiment with marketing-type programs at low cost without having a formal marketing structure. Consequently, the need to add marketing expertise may have been postponed for a longer period than it should have been.[4]

The conflict can be reduced and balance developed when marketing and sales understand that marketing's job is to create more customer leverage over time. Sales groups want marketing to produce more qualified customer leads, increase brand awareness and produce well-targeted sales materials. To achieve these outcomes, at the outset, marketing and sales need to define the customer problems on which to focus, the product/service benefits to highlight and the measures to define marketing success.

Integrating Startup Marketing with Sales

There is an axiom that every CEO must become a marketer, irrespective of training, experience, skills or background. Successful startup entrepreneurs must understand the markets to which their product or service is targeted, be able to attract investment capital and to develop the market. Thus, the initial full-time marketing staff member should actually be considered the "second" marketing hire.

Tactically, establishing an external advisory board or committee is a good way to set a base for a new marketing department and a base toward achieving balance between marketing and sales functions. This advisory group should consist of three to four experienced marketing professionals. Their overall role should be to help monitor the department's evolution, suggest individuals to fill new positions, and serve as a sounding board for new marketing initiatives. With cash flows likely to be tight, the major enticement for an advisory board member is some type of stock incentive.

What kind of experienced advisors do startups need? I suggest they should be individuals who have had responsibilities in areas likely to become important to the new business, including marketing research, marketing communications or public relations.

The existing sales manager needs to be involved in the formation of the advisory group and in its meetings. That way the company will get input that can lead to cooperation between the functions. Advisory committee members can help promote cooperative behaviors between the two groups in numerous ways.

They can stress that both groups share a similar customer orientation, need shared values, can participate in joint training, and need to be involved in developing each other's plans. They can emphasize the importance of having marketing personnel often accompany sales reps on customer calls. This will hammer home exactly why it is critical for sales personnel to provide continual customer feedback to marketing.[5] However, these changes won't eliminate the age-old problem of salespeople hating to develop sales reports, even with the electronic aids available. But it will go a long way to underscoring why these reports are so useful and necessary.

An alternative structure for developing startup marketing and monitoring progress could be for a firm to join with other, non-competing startups. For example, and in simplistic terms, a regional specialty manufacturer based in Rochester could join with ones in Sacramento and Boise to jointly hire a consulting firm (or consultant) that understands their operating environment. Besides offering the potential for lower costs, this approach would enable each of the firms to learn from the experiences of others in the group. Business cooperatives and buying cooperatives have been around a long time and offer a model that could be emulated.

Hiring the Marketing Professional(s)

Hiring the initial marketing professional (or professionals) is as critical a move for a startup as hiring its first chief financial officer. Terri Robinson is president of Robinson &

Associates, a national sales and marketing search firm. She recently underscored this point, saying:

Hiring the right marketing professional can mean the difference between sinking and survival to your business.... Many sales professional resumes say "Sales and Marketing," but in reality (the applicants have) done only sales and perhaps designed a brochure or two.[6]

Based on a results oriented job description(s) *developed by the CEO and the sales manager,* the successful candidate(s) should have the following basic managerial qualifications.

First, a realistic understanding of what needs to be accomplished, the quantitative goals that need to be achieved and the expected timeframe. One common misperception of marketing applicants is that marketing is largely glamorous work. I once had a conversation with someone who defined marketing as, "The ability to make up advertising jingles!"

Second, the ability to overcome resistance to change. If the marketing-sales disconnect is not already an issue, it can become one. Along with the entrepreneur, any new marketing manager must be prepared to address the existing or potential disconnect.

Third, a comfort level with taking risks. The applicant(s) need to have a personal and/or professional record of taking calculated or reasonable risks. This is difficult to assess in an interview and must be explored fully with references.

On the other hand, an entrepreneur may be tempted to promote a current sales employee to become the first marketing director. Often the logic is – the person has experience with the company and its markets. However, in the 21st century, what a viable candidate really needs is a background that goes well beyond sales experience. The candidate must be savvy in lots of ways.

The new hire will be someone who tactically can structure a marketing road map. Of course, the same individual also must manage outside agencies for related creative, public relations and direct marketing activities. And he or she has to understand online marketing tools.

Being actively engaged in product development is a critical part of the job description, which means working with R&D people at early stages to give them valuable customer input. And while the new hire is doing all of this, he or she must keep up with changes in the field by developing contacts in professional marketing and trade associations.

As outlined before, there's still the tough issue of the marketing-sales conflict. It is going to happen. The new hire needs to have the leadership skills to motivate subordinates to resolve conflicts with sales and to build a marketing culture.

I want to confess that in preparing this lecture I turned to my own experienced kitchen cabinet composed of my two sons. Both are successful top executives in startup software and website ventures in Silicon Valley. The two agree that the entrepreneur/CEO must be or become the first marketing person and then hire a second person for the tactical marketing role.

They also agree that marketing is not one-size-fits-all. Know what the business needs and look to hire an individual or individuals with the specific skills required, such as direct marketing, public relations or branding. Hopefully, these tactical skills will translate to measurable results. It goes without saying that the entrepreneur must have realistic insights into the marketing needs of the startup gained from his/her experience as the top marketing person. Clearly, the CEO needs to set the overall strategy. If a highly strategic junior marketer, rather than a tactical one, is then engaged, the new position can inadvertently be a setup for failure.

What is Changing?

There appears, fortunately, to be a little light in the proverbial dark tunnel that has characterized the marketing-sales disconnect.[7] Let me tell you about recent work by Don Schultz. He is a Northwestern University retired professor who remains active in the field, and he recently published some interesting findings from global research. Schultz concluded that times are changing in entrepreneurial and family businesses. In his interactions with these types of executives, he found, "(they) wanted to know how they could use marketing and promotion techniques to generate new markets, create new customers and expand into new areas." For example, Apogee Search, an Internet service firm, has significantly increased the number of new customers by paying bloggers to mention the firm. At a current cost of $1200 a month, the firm has created new customers and has avoided paying for more costly search keywords.[8]

Unfortunately, he also found that many current marketing techniques are centered on reducing risk. This includes risk reduction techniques like product testing, brand extension and repackaging. If the focus of marketing becomes risk reduction, and that concept takes over, then innovation goes out the door. Marketing must provide guidance in *managing* risk, but it must be an inspiration for innovation.[9]

Another change in today's world concerns venture capitalists' expectations. In conversations with executives, I found all report that venture capitalists now expect marketing planning to occur in the early stages. In a book published in 2007 two marketing analysts concluded, "This means you must build marketing into your fundraising efforts. All funders, including VCs, banks, and angels, recognize the need to get the word out about the product."[10] Venture capitalists want their investments "protected" into the future with sound marketing understandings and strategies. A recent *Wall Street Journal* article reported that with consumer-focused tech startups, venture capitalists are advising companies to use online advertising. This activity can be an embryo step towards developing the balance with sales. These VCs are asking tough questions of entrepreneurs whose business plans don't include advertising expenditures.[11]

Obviously, self-funded businesses are too financially constrained at the beginning to develop a robust marketing effort. According to one highly experienced startup marketing executive, a successful introduction requires that management be patient, be novel, have the right positioning and garner some luck.

Conclusion

My take-home messages today are these:

- Remember that being successful at sales is not enough. Startups need marketing or they become vulnerable to inroads by marketing-savvy competitors. These competitors can, and do, disrupt whole industries.
- Recognize the Rodney Dangerfield syndrome – and give marketing respect. That includes avoiding a starvation budget for the marketing function, and understanding the CEO must lead the marketing effort.
- Be sure to include a thoughtful marketing plan at an early stage in the business plan, even if it is a budget-constrained one.

- When trying to develop a marketing orientation in a startup, never underestimate the impact of the sales culture. The sales department is going to have a strong culture due to its strength in producing current revenues. However, the sales culture needs to be balanced against greater incremental future revenue benefits.
- If the marketing-sales conflict continues to be endemic to the business environment, then startups must recognize the implications. Prepare for some tough management roadwork ahead.

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[1] Personal interview August 22, 2007.
[2] For state-of-the-art examples, see Business Week (7/9/07) Jon Fine, "A Better Measure of Old Media?" p. 20; Peter Engardio & Michael Arndt (7/9/07), "What Price Reputation?" pp.70 -79.
[3] Eugene Fram (2005), "Marketing Isn't Contributing to Corporate Strategy – What Needs to Change," *The Eighth Biennial J. Warren McClure Lecture,* Rochester Institute of Technology, October 19th. David Kiley & Burt Helm (2007), "The Short Life of the Chief Marketing Officer," Business Week, December 10th, pp. 63-65.
[4] For an excellent consumer product example, see: Mary Crane (2007), "Six Marketing Tactics Worth Paying For," Forbes. com, May 17th.
[5] Adapted from: Philip Kotler, Neil Rackham, Suj Krishnaswamy (2006), "Ending the War Between Sales & Marketing," Harvard Business Review, July-August 2006, pp. 68-78.
[6] Terri Robinson (2004), "Tips and Strategies for Hiring Marketing Professionals," http://www.recruit2hire.com/market-interview.html
[7] For examples, see: Robert Schmonsees (2005), "Escaping the Black Hole," Thomson/South-Western, Mason, Ohio; Sandra Holtzman & Jean Kondek, (2007), "Lies Startups Tell Themselves to Avoid Marketing," Select Books Inc. New York City.
[8] Simona Covel, (2007) "Paying Bloggers For Online Reviews Can Fan Fame," *The Wall Street Journal,* August 26th, http:online.wsj.com/article/SB118729653905300071.html?mod=sblink_pat_reports.
[9] Don Shultz (2007), "Safe Strategies Don't Suit Small-Business Needs," June 15th *Marketing News*. p. 6.
[10] Holtzman & Kondek, o*p.cit*, p. 34.
[11] Rebecca Buckman (2007), "Investors to Web Start-Ups: Where's the Advertising?" *The Wall Street Journal,* August 21st p. B1 & B2.

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